

**SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2020



Independent Accountant's Report on Applying Agreed-Upon Procedures

April 20, 2021

Mr. Robert M. Kerr, Director
South Carolina Department of Health and Human Services
Columbia, South Carolina

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Department of Health and Human Services (the Department) for the fiscal year ended June 30, 2020. The Department's management is responsible for the systems, processes and behaviors related to financial activity.

The Department's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the Department's management. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

We are required to be independent of the Department and to meet other ethical responsibilities in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the management of the South Carolina Department of Health and Human Services, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed-Upon Procedures Related to the South Carolina Department of Health and Human Services (J02)

Cash Disbursements/Non-Payroll Expenditures

1. Haphazardly select five disbursements from the General Fund, G/L Account 5021540000 (Non-IT & Non-Real Estate Other Professional Services) and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, invoice number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is an expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - The transaction is recorded in the proper fiscal year.
 - Clerical accuracy and proper sales tax is calculated correctly.
2. Haphazardly select five purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2020 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in compliance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Findings

G/L Account Coding – The five inspected transactions, totaling \$14,500,000, were incorrectly coded to General Fund, G/L Account 5021540000 (Non-IT & Non-Real Estate Other Professional Services). They should have been coded to the G/L account series for allocations as these transactions involved the disbursement of monies appropriated by the State.

Monthly Purchasing Card Summaries – For all five inspected purchasing card transactions, we observed that the monthly purchase summaries were either unsigned, unable to be located by the Department, not signed by a supervisor, or not signed in a timely manner.

Management's Response

We agree with the findings.

Corrective Action

G/L Account Coding - The Department has historically recorded the transactions using general ledger code 5021540000. However, going forward we will record the transactions in the appropriate G/L account series. Furthermore, we will complete a journal entry for all transactions processed with the incorrect G/L account in the current year. Additionally, we plan to increase training throughout the Department to discover any future improper coding.

Cash Disbursements/Non-Payroll Expenditures (Continued)

Corrective Action (Continued)

Monthly Purchasing Card Summaries - The Department's purchasing card system is in the process of being restructured. Effective 01/01/2021, original bank statements, receipts and the purchase requisitions are being kept in the main Procurement Office. All current agency cardholders will receive formal training. Effective 05/12/2021, a hold was placed on issuing any new purchasing cards until the new procedures are in place.

Journal Entries and Transfers

3. Haphazardly select five journal entries and transfers for the fiscal year to determine:

- Postings in the general ledger agree to supporting documentation.
- Transaction is properly approved.
- The purpose of the transaction.

We found no exceptions as a result of these procedures.

Reporting Packages

4. Inspect fiscal year end reporting packages submitted to the CG. Compare the Master Reporting Package Checklist to reporting packages that were submitted. In addition, compare the submission dates to the due dates established by the CG's Reporting Policies and Procedures Manual.

5. In addition to the procedure above, perform the following:

- Operating Leases Reporting Package

Agree amounts to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS *Yearend Rptg Operating Lease Expense with Vendor* report and Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Ten haphazardly selected contingent rental payments; (2) The current expense and future minimum payments for ten haphazardly selected operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time/Unusual Rental Payments and Other Detailed Rental Charges). In addition, determine that the Department submitted copies of all new leases in fiscal year 2020 to the CG in compliance with the CG's Reporting Policies and Procedures Manual.

- Interfund Payable Reporting Package

Agree reported amounts to the SCEIS general ledger, SCEIS *Yearend Rptg – Inter-Agency Prior Year Payables* report and Department prepared records.

- Subsequent Events Questionnaire

Compare responses and any required supplemental information to the SCEIS general ledger and Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original Accounts Payable Reporting Package submission.

Reporting Packages (Continued)

Findings

Operating Leases Reporting Package – We were unable to agree amounts reported for month to month rentals and required minimum lease payments, on the Operating Leases Summary Form - Lessee (Form 3.09.1), to supporting schedules provided by the Department.

Project Management expenditures totaling \$733 were improperly coded to G/L Account 5040490000 (Operating Lease - Rent - Other). In addition, the purchase of supplies totaling \$765 was incorrectly coded to G/L Account 5040040000 (Operating Lease - Medical Science Lab Equipment Rent). As a result, the reported total for Current Rent Expense on Form 3.09.1 was overstated by \$1,498.

Base charges for 10 copying equipment agreements were coded to G/L Account 5040027000 (IT - Rent Copying Equipment), totaling \$2,674, were improperly reported as Contingent Rentals on Form 3.09.1. As a result, Contingent Rentals were overstated by \$2,674.

The Department incorrectly reported the future minimum payment schedule for one lease and made calculation errors for the reported future minimum lease payments for three other leases. As a result, the Department understated required future minimum lease payments by \$10,051.

Similar findings were observed in the 2019 and 2018 State Auditor's Reports.

Interfund Payables and Receivables Reporting Package – The Department reported an interfund receivable totaling \$151,047 in the incorrect year on the Interfund Receivables Summary Form. The receivable related to revenue received for services provided in July 2020.

Management's Response

We agree with the findings.

Corrective Action

Operating Leases Reporting Package - The Department will conduct additional training to be able to classify expenditures more accurately. We will conduct additional training on using correct G/L account coding and the importance of assigning the correct code. Accounts Payable staff will also be more diligent reviewing G/L accounts. The Department will also document another level of review on the reporting package.

Interfund Payables and Receivables Reporting Package - We reviewed and discovered that we inadvertently included July 2020 FY2021 totals in the FY2020 reporting package. While there was a review by management, the totals were missed a second time. There has been an additional level of management added in the Office of the Controller, Assistant Controller; therefore, several reviews will be completed prior to signature and approval this fiscal year.

Composite Reservoir Accounts

6. Determine that the Department submitted the required Bank Account Transparency and Accountability Report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.82 of the fiscal year 2020 Appropriation Act.

Composite Reservoir Accounts (Continued)

7. Obtain fiscal year monthly reconciliations for each of the Department's composite reservoir accounts, haphazardly select two reconciliations for each account, and perform the following procedures:
 - Recalculate selected reconciliations and determine that they were timely performed, reviewed, and properly documented in compliance with Department procedures.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were explained and resolved.
 - Determine if adjusting entries were made in the accounting records.
8. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records and that they were recorded in the proper fiscal year.
9. Haphazardly select and inspect five composite reservoir account disbursements to determine that they were properly classified in the accounting records, were disbursements of the Department, and that goods and/or services were procured in compliance with Department procedures.

We found no exceptions as a result of the procedures.

Assets and Personal Property

10. Haphazardly select five asset acquisitions and inspect supporting documentation and compare to the SCEIS general ledger and to the SCEIS *Asset History Sheet*. Determine that each asset was properly capitalized and posted to the general ledger in compliance with the CG's Reporting Policies and Procedures Manual.
11. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Findings

Asset Acquisitions – The Department incorrectly recorded a capital asset as a low value asset. Since the asset's total value of \$8,861 exceeded the CG's asset capitalization threshold of \$5,000, this asset should have been recorded in SCEIS as a capital asset. In addition, the Department incorrectly recorded the purchase of 25 laptops (total of \$20,898) as one asset. Similar findings were observed in the 2019 and 2018 State Auditor's Reports.

Annual Inventory – The Department did not complete an annual inventory as required by SC Code of Law Section 10-1-140 during fiscal year 2020.

Management's Response

We agree with the findings.

Assets and Personal Property (Continued)

Corrective Action

Asset Acquisitions – We will conduct additional training on asset class assignments. We will also implement procedures to follow up on any asset transactions that need to be keyed.

Annual Inventory – An inventory was not completed during fiscal year 2020 because staff was not on site due to Covid-10 restrictions. Beginning with fiscal year 2021, a physical inventory will again be conducted annually in compliance with Department policies and State law.

Fiscal Year 2020 Appropriation Act / Department-Specific Provisos

12. Determine compliance with the Department-specific state provisos (33.17, 33.20 (D), 33.22 (A)(1), 33.24, and 33.25) by inquiring with management and observing supporting documentation, where applicable.
13. Through inquiry of management and inspection of supporting documentation, determine the Department's compliance with Proviso 118.16 of the fiscal year 2020 Appropriation Act regarding nonrecurring revenue received during the fiscal year.

We found no exceptions as a result of the procedures.

Status of Prior Findings

14. Through inquiry of management and inspection of supporting documentation, determine that the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

Observations

Through inquiry with management and inspection of supporting documentation, we determined one prior year finding was corrected before the end of fiscal year 2020: (1) Cash Receipts/Revenue – Coding of indirect cost recoveries.

During our follow up of the Legal Services/Attorney Fees finding we determined the Department paid an attorney at a rate greater than the Attorney General's approved rate in fiscal year 2020; therefore, this finding still existed at year-end.

We further identified two similar findings related to (1) Operating Leases Reporting Package; and (2) Asset Acquisitions that will be repeated. See findings at **Reporting Packages** and **Assets and Personal Property**.

Management's Response

We agree with the finding.

Corrective Action

The corrective action taken was to remove the attorney that was paid an incorrect rate from the South Carolina Attorney General's Request For Authorization To Employ Associate Counsel Form (Form 1) and require that the law firm no longer utilize this attorney for work related to the Department. All future invoices for legal services will be examined more closely to reconcile attorneys listed on an invoice with attorneys listed on the respective Form 1.